

**MISSOURI PUBLIC ENTITY RISK
MANAGEMENT FUND**

Jefferson City, Missouri

INDEPENDENT AUDITORS' REPORT

For the Years Ended December 31, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Missouri Public Entity Risk Management Fund
Jefferson City, Missouri:

We have audited the accompanying financial statements of the business-type activities of **Missouri Public Entity Risk Management Fund (MOPERM)**, as of and for the years ended December 31, 2009 and 2008, which collectively comprise the Fund's basic financial statements as listed in the table of contents. These financial statements are the responsibility of MOPERM's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provided a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the **Missouri Public Entity Risk Management Fund**, as of December 31, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, ten year loss development information, and reconciliation of claims liabilities by type of contract on pages 2 through 6 and 20 through 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Evers & Company, CPA's, LLC

EVERS & COMPANY, CPA's, L.L.C.
Jefferson City, Missouri

March 19, 2010

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

Management of the Missouri Public Entity Risk Management Fund (MOPERM) offers this narrative overview and analysis of the financial activities of MOPERM for the fiscal year ended December 31, 2009. We encourage readers to consider the information presented here in conjunction with MOPERM's financial statements and notes to the financial statements to enhance their understanding of MOPERM's financial performance.

Fund Accounting

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. MOPERM, a corporate and political body created by the Missouri General Assembly, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. MOPERM is not considered to be a component unit of the State of Missouri. There are three categories available for governmental accounting: governmental funds, proprietary funds and fiduciary funds. MOPERM's funds are considered proprietary funds.

Proprietary funds. Proprietary funds account for governmental operations that are designed to be self-supporting from fees charged to consumers for the provision of goods and services or where the government has decided that the periodic determination of revenues, expenses, and net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The accounting and financial reporting practices of proprietary funds are similar to those used for business enterprises and focus on capital maintenance and the flow of economic resources through the use of accrual accounting. Of the two types of proprietary funds, MOPERM maintains one type: Enterprise Fund. MOPERM's purpose is to provide liability and property insurance coverage to participating public entities, their officials and employees.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to MOPERM's financial statements. Typically, government financial statements would be presented as three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. However, as MOPERM uses only Proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail, we do not present government-wide financial statements as the information would be repetitive.

The financial statements, in addition to management's discussion and analysis, are comprised of the balance sheet; the statement of operations and changes in retro return reserve; the statement of cash flows and the notes to financial statements. The financial statements are prepared on the accrual basis in accordance with U.S. generally accepted accounting principles applicable to governmental enterprise funds.

The balance sheet presents MOPERM's financial position as of the end of the fiscal year. Information is displayed on assets and liabilities, with the difference between the two reported as retro return reserve. The retro return reserve of MOPERM reflect the resources available as of the end of the fiscal year to pay claims of participants when due. Over time, increases and decreases in retro return reserve measure whether MOPERM's financial position is improving or deteriorating.

The statement of operations and changes in retro return reserve presents information detailing the revenues and expenses that resulted in the change in retro return reserve that occurred during the current fiscal year. All revenues and expenses are reported on an accrual basis. This means that the revenue or expense is recognized as soon as the underlying event giving rise to the change occurs, regardless of when the actual

cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods. For example, contributions due from a public entity, even though not yet paid by fiscal year end, will be reflected as revenue. Likewise, claims that occurred during the fiscal year under self-insured plans will be reflected as an expense, whether or not they have been paid as of the end of the fiscal year.

The statement of cash flows presents the cash provided and used by MOPERM categorized by operating activities, noncapital financing activities, capital and related financing activities, and investing activities. It reconciles the beginning and end-of-year cash balances contained in the balance sheet. The effects of accrual accounting and noncash activities, such as depreciation, are adjusted to supplement the presentation in the statement of operations and changes in retro return reserve.

The notes to financial statements follow the basic financial statements and provide additional information that is essential to a full understanding of the data provided in the financial statements.

In addition to the financial statements and accompanying notes, required supplementary information is presented illustrating MOPERM's past ten years of earned revenues and investment income compared to related costs of loss and other expenses incurred by MOPERM.

Financial Analysis

The following tables present the summarized financial position and results of operations for the fiscal years ended December 31, 2009 and 2008. Additional details are available in the accompanying financial statements.

	2009	2008	Increase (Decrease)
ASSETS			
Cash and investments	\$ 100,991,838	\$ 95,361,888	\$ 5,629,950
Receivables	715,444	1,034,384	(318,940)
Capital assets	1,088,592	1,152,260	(63,668)
Other	11,126	14,592	(3,466)
Total assets	\$ 102,807,000	\$ 97,563,124	\$ 5,243,876
LIABILITIES			
Loss and loss adjustment expense	\$ 48,830,956	\$ 48,387,154	\$ 443,802
Other	7,682,098	8,568,371	(886,273)
Total Liabilities	56,513,054	56,955,525	(442,471)
RETRO RETURN RESERVE			
Designated catastrophic reserves	27,184,317	25,103,349	2,080,968
Invested in capital assets	1,088,592	1,152,260	(63,668)
Undesignated	18,021,037	14,351,990	3,669,047
Total retro return reserve	46,293,946	40,607,599	5,686,347
Total liabilities and retro return reserve	\$ 102,807,000	\$ 97,563,124	\$ 5,243,876

- MOPERM was established to offer liability protection to participating public entities, their officials and employees. MOPERM has been successfully providing member entities with broad coverages at stable and economical rates. Effective July 1, 2003, MOPERM's Board of Trustees approved the offering of property insurance coverage to its members. MOPERM decreased its overall membership by 30 members during 2009, compared to a 15 member increase during 2008. The reduction of

members in 2009 was due to the soft market and competition within the state. MOPERM lost its largest member, several mid to large size members and quite a few small entities, resulting in a loss of contribution of about \$2,875,000. Even though the overall contribution collected decreased, total assets increased by \$5,243,876 in 2009 to \$102,807,000. The total increase in assets during 2008 was approximately \$9,079,601. During 2009, receivables decreased by \$318,940. The majority of this decrease is due to the decrease in accrued interest on investments. Capital assets decreased in 2009 due to the retirement of a computer server and several old monitors and computers.

- Total liabilities decreased by \$442,471 in 2009 to \$56,513,054. The decrease in liabilities was primarily associated with a decrease in advance contribution. MOPERM reserves 75% of annual liability contributions to pay claims. This percentage conservatively reflects past claims history. This reserve is reviewed annually by an independent actuary. MOPERM has no long term debt.
- Retro Return Reserve for 2009 increased by net income of \$5,686,347. Since its inception, MOPERM has refunded over \$7 million of contributions to the participating members. MOPERM's Board of Trustees did not declare a refund in 2009.

	2009	2008	Increase (Decrease)
OPERATING REVENUES			
Contributions	\$ 19,068,536	\$ 21,944,164	\$ (2,875,628)
Investment income	3,612,904	4,486,751	(873,847)
Other income (expense)	52	62,896	(62,844)
Total operating revenues	22,681,492	26,493,811	(3,812,319)
OPERATING EXPENSES			
Loss and loss adjustment expense	12,658,959	15,465,874	(2,806,915)
Excess insurance premiums	1,119,946	1,170,558	(50,612)
General and administrative	2,624,008	3,159,917	(535,909)
Total operating expenses	16,402,913	19,796,349	(3,393,436)
Net operating income	6,278,579	6,697,462	(418,883)
Unrealized gain(loss) on investments	(592,232)	901,195	(1,493,427)
Net income	\$ 5,686,347	\$ 7,598,657	\$ (1,912,310)

- Contributions earned for 2009 decreased by \$2,875,628. The property line of business had an approximate decrease of \$272,526 which was attributed to the loss of members and a slight rate decrease of 1.20%. Liability contribution was a negative \$2,603,102 for 2009 due to a 4.97% rate decrease and the loss of members.
- MOPERM has invested approximately \$86.5 million, primarily in U.S. Government Agency Securities with final maturities of seven years or less, U.S. Government Guaranteed Mortgages and Collateralized Mortgage Obligations. Investment income consists of interest income, amortization of premium and discounts on bonds, and realized gains and losses on securities. Investment income for 2009 decreased by \$873,847 partly due to the financial market meltdown. Because of the changes in the investment market, MOPERM experienced an unrealized loss on investments of \$592,232 during 2009.
- Loss and loss adjustment expense decreased by \$2,806,915 in 2009. MOPERM paid out approximately \$74,911 more in claims in 2009 than 2008.

- Excess insurance premiums decreased by \$50,612 in 2009. In 2009, MOPERM experienced a slight decrease in rates on earthquake excess in the property line of business. The majority of the decrease is due to the loss of property members. The excess insurance ceded premium for property increases/decreases as members are added or non-renewed.
- General and administrative expenses approximated 13.8% and 14.4% of total contributions earned for 2009 and 2008, respectively. These expenses decreased by \$535,909 in 2009. The majority of this decrease was due to decreases in commission expense and other outside services. Other outside services in 2008 included the administrative fee for Arthur J. Gallagher to underwrite the property lines of business. The 2009 renewals were processed with MOPERM staff.

FINANCIAL SUMMARY

In 2009, MOPERM decreased its overall membership and had a decrease of \$2,875,628 in contribution. The insurance market was soft and there were several competitors in the state that did not exist a year or so ago. The non renewal of members included our largest member, several mid-size to large entities and a number of small entities. The liability program had a base rate decrease of 4.97% while the property program had a slight decrease of 1.20%. At December 31, 2009, MOPERM had a total of 909 contributors to the pool.

Net income decreased by \$1,912,310 in 2009. This is due primarily to the unrealized change to investments and the decrease in contribution collected. The general and administrative expenses decreased slightly from 2008. Retro return reserves increased by \$5,686,347 in 2009 totaling \$46,293,946. Even with the loss of members and contribution for 2009, the financial position of MOPERM remains very stable.

Economic Environment and Next Year's Budget and Rates

Since 1987, MOPERM has been a competitive alternative for local government agencies seeking to manage rising coverage costs against growing exposures and tight budgets. Rates are analyzed by an actuary each year and rate recommendations are made to management. Management analyzes the actuary's rate recommendations and suggests rate changes based on actual loss experience and the current insurance market.

The 2010 estimated contribution was down about 14% compared to the final 2009 contribution amount. The decrease was the anticipation of losing more members to our competitors. Several companies have entered the public entity market sector where there has been little interest the past few years. The total operating expenses are budgeted to decrease about 3% to \$3.6 million over the final 2009 operating expenses of \$3.7 million. The largest increments are commission expense and excess insurance premiums that increase and decrease with contribution written. The property program is being administered in-house, eliminating the underwriting administration fee. The total operating expenses are about 22% of total budgeted contribution. The loss and loss expense percentage remains constant at about 75% of budgeted contribution each year. There have been no major insurance program changes for 2010.

Contacting the Fund's Financial Management

This financial report is designed to provide our members and the public with a general overview of the Fund's finances and to demonstrate the Fund's accountability for the contribution it receives. If you have questions about this report or need additional financial information, contact the Fiscal Manager, Cathy Schulte, at PO Box 7110, Jefferson City, MO 65102, (573)751-1266 ext. 114 or e-mail Cathy-Schulte@moperm.com.

**BASIC
FINANCIAL
STATEMENTS**

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

BALANCE SHEETS

DECEMBER 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 14,462,208	\$ 8,134,916
Short-term investments	6,322,768	8,103,810
Deposits and accounts receivable other than contributions	119,443	92,794
Accrued interest receivable	593,260	934,223
Contributions in the course of collection	2,741	7,367
Prepaid expenses	11,126	14,592
Total current assets	<u>21,511,546</u>	<u>17,287,702</u>
Noncurrent assets		
Long-term investments	80,206,862	79,123,162
Capital assets (net of accumulated depreciation of \$1,433,913 in 2009 and \$1,380,826 in 2008)	1,088,592	1,152,260
Total noncurrent assets	<u>81,295,454</u>	<u>80,275,422</u>
 Total assets	 <u>\$ 102,807,000</u>	 <u>\$ 97,563,124</u>
 Liabilities and Retro Return Reserve		
Current liabilities:		
Loss and loss adjustment expense reserves	\$ 48,830,956	\$ 48,387,154
Advance contributions	7,596,067	8,446,216
Accounts payable and accrued expenses	86,031	122,155
 Total liabilities	 <u>56,513,054</u>	 <u>56,955,525</u>
Retro return reserve (unrestricted):		
Designated catastrophic reserves	27,184,317	25,103,349
Invested in capital assets	1,088,592	1,152,260
Undesignated	18,021,037	14,351,990
 Total retro return reserve (unrestricted)	 <u>46,293,946</u>	 <u>40,607,599</u>
 Total liabilities and retro return reserve	 <u>\$ 102,807,000</u>	 <u>\$ 97,563,124</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND
STATEMENTS OF OPERATIONS AND CHANGES
IN RETRO RETURN RESERVE**

FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Revenues:		
Contributions	\$ 19,068,536	\$ 21,944,164
Investment income	3,612,904	4,486,751
Other income (expense)	52	62,896
	<u>22,681,492</u>	<u>26,493,811</u>
Total operating revenues		
Expenses:		
Loss and loss adjustment expenses	12,658,959	15,465,874
Excess insurance premiums	1,119,946	1,170,558
General and administrative	2,624,008	3,159,917
	<u>16,402,913</u>	<u>19,796,349</u>
Total operating expenses		
Net operating income	6,278,579	6,697,462
Unrealized gains on investments	<u>(592,232)</u>	<u>901,195</u>
Net income	5,686,347	7,598,657
Retro return reserve, beginning of year	<u>40,607,599</u>	<u>33,008,942</u>
Retro return reserve, end of year	<u>\$ 46,293,946</u>	<u>\$ 40,607,599</u>

The accompanying notes are an integral part of these financial statements.

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND
STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Contributions collected	\$ 18,223,013	\$ 20,303,744
Loss and loss adjustment expenses paid	(12,241,806)	(11,329,254)
Payments to suppliers and excess insurer	(3,089,149)	(3,710,901)
Payments to employees	(616,183)	(587,080)
Investment income received	4,055,822	4,099,736
Other income (loss)	52	62,896
	<u>6,331,749</u>	<u>8,839,141</u>
Net cash provided by operating activities		
Cash flows used in capital and related financing activities:		
Purchases of capital assets	(7,612)	(39,370)
Cash flows from investing activities:		
Proceeds from matured investments	91,926,596	133,814,888
Investments purchased	(91,923,441)	(140,586,332)
	<u>3,155</u>	<u>(6,771,444)</u>
Net cash used in investing activities		
Change in cash and cash equivalents	6,327,292	2,028,327
Cash and cash equivalents, beginning of year	8,134,916	6,106,589
Cash and cash equivalents, end of year	<u>\$ 14,462,208</u>	<u>\$ 8,134,916</u>
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 5,686,347	\$ 7,598,657
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71,281	80,151
Accretion of discounts and amortization of premiums, net	213,839	(92,135)
Realized gain on investments	(111,885)	(92,901)
Unrealized (gain)losses on investments	592,232	(901,194)
Changes in certain assets and liabilities:		
(Increase) decrease in deposits and accounts receivable other than contributions	(26,649)	960,812
(Increase) decrease in accrued interest receivable	340,963	(201,979)
(Increase) decrease in contributions in course of collection	4,626	8,143
(Increase) decrease in prepaid expenses	3,466	(1,357)
Increase (decrease) in loss and loss adjustment expense reserves	443,802	3,175,808
Increase (decrease) in advance contributions	(850,149)	(1,648,563)
Increase (decrease) in accounts payable and accrued expenses	(36,124)	(46,301)
	<u>645,402</u>	<u>1,240,484</u>
Net adjustments		
Net cash provided by operating activities	<u>\$ 6,331,749</u>	<u>\$ 8,839,141</u>

The accompanying notes are an integral part of these financial statements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

1. Reporting Entity

The Missouri Public Entity Risk Management Fund ("MOPERM") is a body corporate and politic created by the Missouri General Assembly and signed into law on June 20, 1986. MOPERM became operational January 1, 1987. Although the State of Missouri is responsible for appointing some of the members of the Board of Trustees, the State's accountability does not extend beyond these appointments. Accordingly, MOPERM is considered a related organization of the State of Missouri but is not considered a component unit.

The purpose of MOPERM, as established in Chapter 537.700 RSMo 1986 and in the bylaws, is to provide liability protection to participating public entities, their officials and employees. Effective July 1, 2003, MOPERM added property coverage to its services offered to such participating members. MOPERM had a total of 909 and 936 contributors, including cities, counties, healthcare entities and school districts, as of December 31, 2009 and 2008, respectively.

MOPERM uses only proprietary funds, which present financial statement information in the same manner as government-wide financial statements only with more detail. Government-wide financial statements are not presented as such information would be repetitive.

2. Basis of Accounting and Summary of Significant Accounting Policies

Basis of Accounting

MOPERM prepares its financial statements on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles for governmental enterprise funds. These principles are similar to those for private business enterprises. Accordingly, revenues are recorded when earned and expenses when incurred. MOPERM applies all Financial Accounting Standards Board (FASB) statements and interpretations that do not conflict with or contradict the Governmental Accounting Standards Board (GASB) pronouncements.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and overnight repurchase agreements. All cash on deposit is insured by federal depository insurance or collateralized by securities held by the counter party financial institution's trust department or agent in MOPERM's name. The carrying amounts reported in the balance sheets approximate the fair value of these instruments.

Investments

MOPERM reports investments at fair value, with the changes in fair value reported in the Statements of Operations and Changes in Retro Return Reserve. The estimated fair value of fixed maturity investments is based on quoted market prices. Interest income is recorded when earned. Realized gains and losses on investments are determined using the specific identification method.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)

Capital Assets

Capital assets are stated at cost, less accumulated depreciation. Improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Realized gains and losses are recognized upon disposal or retirement of the related assets and are reflected in current operations.

Depreciation is calculated on a straight-line basis over the following estimated useful lives of the respective assets:

	Depreciable Life
Automobiles	3 years
Computer equipment and software	3-5 years
Equipment and leasehold improvements	5 years
Furniture and fixtures and building improvements	5-10 years
Building	40 years

Contributions

Contributions are recognized as revenue over their related policy period. Advance contributions represent contributions received in the current year for policies effective the following year. No unearned contribution is reflected at year-end as all policies expire on December 31.

Annual contributions are calculated based on actuarial projections to produce sufficient funds to pay losses and expenses. If contributions do not produce sufficient funds to meet obligations, MOPERM is empowered to make special assessments. Members are jointly and severally liable for claims against MOPERM.

Retro Return Reserve Refunds

If collected contributions exceed total paid claims, claim expenses and operating expense in any given year, the Board of Trustees may declare a refund of the excess be made to participants who were members of MOPERM during the policy year for which a refund was declared. Unless otherwise determined by the Board of Trustees, no refund will be made until all claims are closed and the appropriate statute of limitations has expired for that policy year. Refunds are recorded in the year declared.

Loss and Loss Adjustment Expense Reserves

Loss and loss adjustment expenses are charged to income as incurred. Loss and loss adjustment expense reserves represent the accumulation of estimates for reported unpaid losses including loss adjustment expenses, the effects of inflation and other societal and economic factors, plus a provision for losses incurred but not reported. Loss adjustment expenses represent anticipated costs of settling claims, including attorneys' and adjusters' fees. The reserves for incurred but not reported loss and

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

NOTE 2 – Continued (Basis of Accounting and Summary of Significant Accounting Policies)

loss adjustment expenses are actuarially determined and based on a computation that applies varying percentages to each policy year's earned contributions, less cumulative claims paid and reported unpaid loss reserves at the balance sheet date. The methods for making such estimates and for establishing the resulting liability are continually reviewed and any adjustments are reflected in earnings.

Designated Catastrophic Reserves

The designated catastrophic reserves are funds designated by the Board of Trustees to cover catastrophic losses incurred by MOPERM for any policy year. The balances at December 31 for policy years 2006 through 2009 is equivalent to 10% of the earned contribution and 15% of the earned contribution for all policy years since MOPERM's inception minus \$1,545,447 for policy year 2002. Plus any undesignated retro return reserves of a policy year that is twenty years old. The total of these reserves at December 31, 2009 and 2008 is \$146,911 and \$50,059, respectively. During 2005, the Board of Trustees approved the transfer of the catastrophic reserves for policy year 2002 to the Undesignated Retro Return Reserves. If losses in any policy year exceed total contributions and designated catastrophic reserves, additional assessments could be made to applicable members for the policy year the losses occurred.

Operating and Non-operating Income and Expenses

All revenues and expenses, except the unrealized gain or loss on investments, are considered operating. Investment income is considered operating revenue.

Income Taxes

The Internal Revenue Service ruled that MOPERM is exempt from federal income tax under Section 115 of the Internal Revenue Code.

Management's Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Subsequent Events

MOPERM evaluates events and transactions occurring subsequent to the date of the financial statements for matters requiring recognition or disclosure in the financial statements. The accompanying financial statements consider events through March 19, 2010, which is the date the financial statements were available to be issued.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

3. Deposits and Investments

Deposits

Custodial credit risk for deposits is the risk that, in the event of a financial institution failure, MOPERM's deposits may not be returned. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, MOPERM will not be able to recover the value of investments or collateral securities that are in the possession of an outside party. As of December 31, 2009 and 2008 no investments were uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, and were held in MOPERM's name.

Cash balances include short-term securities and operating balances held by financial institutions. At December 31, 2009 and 2008, the carrying amount of deposits at the financial institutions was \$(649,134) and \$(32,334), the bank balance was \$466,822 and \$300,703, respectively. Of the bank balance, \$250,000 was covered by federal depository insurance at December 31, 2009 and 2008. In addition, at December 31, 2009, Central Bank participated in the FDIC's Transaction Account Guarantee Program which provides for a temporary full guarantee by the FDIC for funds in noninterest bearing transaction accounts above the existing FDIC limit. At December 31, 2009 and 2008, an additional \$15,111,342 and \$8,167,251 was held in overnight repurchase agreements with a book value of \$15,111,342 and \$8,167,251. The repurchase agreements were collateralized by securities delivered to a third party institution mutually agreed upon by the financial institution and MOPERM. The bank overdraft of \$649,134 and \$32,334 at December 31, 2009 and 2008 is offset by the repurchase agreements as discussed above.

Investment Policies

MOPERM's investment policy allows investments in: time deposits with maturity of twenty four months or less, U.S. Treasury securities with final maturities of seven years or less, U.S. mortgage backed securities with final maturities of twenty years and a seven year average life or less at purchase, U.S. Government agency securities with final maturities of seven years or less, collateralized mortgage obligations that have a weighted average life not to exceed seven years and pass the FFIEC High Risk Stress Test, corporate issued and guaranteed by FDIC or other government programs under the "Temporary Liquidity Guarantee Program" with final maturities of seven years or less, commercial paper that may not exceed 180 days to maturity and repurchase agreements.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

NOTE 3 – Continued (Deposits and Investments)

Investment Summary:

The following table presents the summary of MOPERM'S investments by type at December 31, 2009 and 2008:

	2009	2008
U.S. Agencies	\$ 50,292,522	\$ 76,853,342
U.S. Government Guaranteed Mortgages	14,263,704	4,703,888
Collateralized Mortgage Obligations	21,973,404	5,669,742
	<u>\$ 86,529,630</u>	<u>\$ 87,226,972</u>

Concentration of Credit Risk

Concentration of credit risk is the risk of loss that may be attributed to the magnitude of a government's investment in a single issue. MOPERM's investment guidelines require diversified portfolios with no single issue being greater than 5% of the portfolio, except for obligations of the U.S. government or its agencies. As of December 31, 2009 and 2008, no single issue exceeds 5% of the portfolio, excluding U.S. government securities.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to MOPERM. At December 31, 2009 and 2008, all investments are guaranteed by the U.S. Government.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt instrument's exposure to a change in interest rates and the related sensitivity of market price to parallel shifts in the yield curve. It uses the present value of cash flows, weighted for those cash flows as a percentage of the instruments' full price. MOPERM mitigates interest rate risk through the duration of investments outlined in its investment policy.

Foreign Currency Risk

MOPERM held no foreign investments or currency as of December 31, 2009 and 2008.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

4. Capital Assets

Capital asset activity for the year ended December 31, 2009 was as follows:

Category	Balance at December 31, 2008	Additions	Deductions/ Transfers	Balance at December 31, 2009
Building and building improvements	\$ 1,159,491	\$ -	\$ -	\$ 1,159,491
Equipment	44,524	3,536	4,862	43,198
Furniture and fixtures	102,181	-	-	102,181
Computer equipment and software	1,178,335	7,621	16,876	1,169,080
Automobiles	48,555	-	-	48,555
Intangible	-	-	-	-
Total capital assets	2,533,086	11,157	21,738	2,522,505
Less accumulated depreciation	1,380,826	71,281	18,194	1,433,913
Capital assets, net	\$ 1,152,260	\$ (60,124)	\$ (3,544)	\$ 1,088,592

Capital asset activity for the year ended December 31, 2008 was as follows:

Category	Balance at December 31, 2007	Additions	Deductions/ Transfers	Balance at December 31, 2008
Building and building improvements	\$ 1,159,491	\$ -	\$ -	\$ 1,159,491
Equipment	39,278	5,304	58	44,524
Furniture and fixtures	92,641	9,540	-	102,181
Computer equipment and software	1,170,320	24,526	16,511	1,178,335
Automobiles	48,555	-	-	48,555
Intangible	65,000	-	65,000	-
Total capital assets	2,575,285	39,370	81,569	2,533,086
Less accumulated depreciation	1,382,244	80,151	81,569	1,380,826
Capital assets, net	\$ 1,193,041	\$ (40,781)	\$ -	\$ 1,152,260

Total depreciation expense for the years ended December 31, 2009 and 2008 was \$71,281 and \$80,151, respectively.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

5. Loss and Loss Adjustment Expense Reserves

Activity in the loss and loss adjustment expense reserves was as follows:

	2009	2008
Loss and loss adjustment expense reserves, beginning of year, net of reinsurance recoverable of \$586,424 in 2009 and \$1,322,275 in 2008	\$ 48,387,154	\$ 45,211,346
Incurred loss and loss adjustment expenses:		
Provision for insured events – current year	12,952,795	15,511,065
Provision for insured events – prior years	(293,836)	(45,191)
Total incurred loss and loss adjustment expenses	12,658,959	15,465,874
Payments:		
Loss and loss adjustment expenses attributable to insured events – current year	3,133,622	3,830,596
Loss and loss adjustment expenses attributable to insured events – prior years	9,081,535	8,459,470
Total payments	12,215,157	12,290,066
Loss and loss adjustment expense reserves, end of year, net of reinsurance recoverable of \$991,689 in 2009 and \$586,424 in 2008	\$ 48,830,956	\$ 48,387,154

The provision for prior year insured events represents the variations between MOPERM's estimated claims payable for prior years' claims and the actual amounts required to satisfy such claims.

6. General and Administrative Expenses

The most significant components of general and administrative expenses are salary, employee benefit, agent commission, and loss control services expenses. All employees administering MOPERM are employees of the State of Missouri and are covered by the Missouri State Employees' Retirement System. MOPERM reimburses the State of Missouri, a related organization, for all costs of administration, including salary costs of \$617,041 for 2009 and \$591,697 for 2008 and pension costs of \$77,527 for 2009 and \$72,026 for 2008. As of December 31, 2009 and 2008, payables due to the State of Missouri totaled \$38,518 and \$39,601, respectively. The State of Missouri's other post employment benefit package is subject to the measurement and disclosure requirements of GASB 45.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

NOTE 6 – Continued (General and Administrative Expenses)

Effective during the 2008 year, the amounts paid to the State of Missouri include a contribution allocation to reimburse the State for the funding of the post retirement health insurance liability. This liability is recognized in total by the State of Missouri. MOPERM's financial statements reflect their allocated share of funding requirement.

All property business is required to be written through agents where liability business can be written direct or through an agent. Agent commission expense totaled \$1,472,756 and \$1,728,476 for the years ended December 31, 2009 and 2008, respectively. Loss control services, provided by an outside consultant, approximated \$105,395 and \$103,726 for the years ended December 31, 2009 and 2008, respectively.

7. **Retro Return Reserve Refunds**

The Board of Trustees of MOPERM did not declare retro return reserve refunds during 2009 or 2008. As of December 31, 2009, cumulative retro return reserve refunds were as follows:

Policy Year	Refunds	Refunds	Refunds Total Declared	Percentage of Contributions Refunded
	Declared and Paid Prior to 2008	Declared and Accrued During 2009 and 2008		
1987	\$1,391,082	\$ -	\$1,391,082	85%
1988	2,074,331	-	2,074,331	76%
1989	519,031	-	519,031	23%
1990	933,499	-	933,499	45%
1992	643,707	-	643,707	22%
1994	155,373	-	155,373	3%
1995	1,175,375	-	1,175,375	20%
1996	129,080	-	129,080	2%
	<u>\$7,021,478</u>	<u>\$ -</u>	<u>\$7,021,478</u>	

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

8. Excess Insurance

MOPERM has maintained various excess insurance coverage with outside insurance carriers for the liability program. From January 1, 1989 through December 31, 1995, coverage was provided on a claims made basis. From December 31, 1995 through July 7, 2002, coverage was provided on an occurrence basis.

During the period from December 31, 1995 through July 7, 2002, the excess liability policy provided coverage of \$100,000 for each occurrence or wrongful act in excess of a \$900,000 self-insured retention limit and an aggregate limit of \$3,000,000 based on a minimum underlying self-insured retention of \$6,000,000.

Since July 7, 2002, MOPERM has elected not to purchase an excess insurance policy for liability.

Effective July 1, 2003, excess insurance for the property program was purchased with outside carriers.

The property excess policy, with Allianz Insurance Company, provides coverage of \$200,000,000 for each occurrence. MOPERM's 2009 retention per claim was \$50,000 and \$100,000 per occurrence, except wind and hail that had a \$150,000 retention per claim and \$200,000 per occurrence, and 2008 retention per claim and occurrence was \$50,000, except wind and hail that had \$100,000 retention per occurrence, with no annual aggregate. The boiler and machinery excess policy, with Zurich American Insurance Company, provides coverage of \$50,000,000 for each occurrence with no annual aggregate and MOPERM had a \$10,000 deductible per occurrence for 2009 and 2008. The crime excess policy, with Travelers Casualty and Surety of America, provides coverage of \$50,000 per occurrence and MOPERM's retention per occurrence was \$5,000 with no annual aggregate for both 2009 and 2008.

9. Condominium Association

On February 4, 2005, MOPERM purchased an office condominium in the Howerton Center Condominium. In conjunction with the purchase, MOPERM became a one-third member of The Howerton Center Condominium Association, Inc. (Corporation). The Corporation is a Mutual Benefit Corporation formed for the purpose of maintaining the common areas in The Howerton Center Condominium and performing all other duties set forth in the Declaration of Condominium. MOPERM contributed \$1,000 to the Corporation for operating funds. MOPERM is billed utilities, insurances and other expenditures by the Corporation as outlined in the Corporation's Condominium Declarations and Bylaws. MOPERM records such expenditures on the accrual basis of accounting as general and administrative expenses.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008

10. Contingencies

MOPERM is a party to a number of lawsuits arising in the normal course of business. While the results of litigation cannot be predicted with certainty, management, based upon advice of MOPERM's counsel, believes the final outcome of such litigation will not have a material adverse effect on MOPERM's financial position or its results of operations.

SUPPLEMENTAL INFORMATION

**MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND
SUPPLEMENTAL SCHEDULE OF 2000-2009
LOSS DEVELOPMENT INFORMATION**

DECEMBER 31, 2009

The following page illustrates how MOPERM's earned revenues (net of excess insurance) and investment income compared to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by MOPERM for each of the ten years ended December 31, 2009. The rows of the table are defined as follows:

- (1) The total of each fiscal year's gross earned contribution revenues and investment revenues. Earned contribution revenue and investment revenue paid to excess insurers and earned contribution revenue and investment revenue net of the effects of excess reinsurance premiums.
- (2) Each fiscal year's other operating costs of MOPERM including overhead and claims expense not allocable to individual claims.
- (3) MOPERM's cumulative contribution refunds for each policy year.
- (4) MOPERM's gross incurred losses and allocated loss adjustment expense, losses assumed by excess insurer and net incurred losses and allocated loss adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- (5) The cumulative net amounts paid as of the end of successive years for each policy year.
- (6) The latest re-estimated amount of losses assumed by excess insurers as of the end of each year for each accident year.
- (7) Each policy year's incurred losses increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known losses, re-evaluation of existing information on known losses, as well as the emergence of new losses not previously known.
- (8) Compares the latest re-estimated net incurred losses amount to the amount originally established (line 4) and shows whether this latest estimate of loss cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature policy years. The columns of the table show data for successive policy years.

MISSOURI PUBLIC ENTITY RISK MANAGEMENT
SUPPLEMENTAL SCHEDULE OF 2000-2009
LOSS DEVELOPMENT INFORMATION, CONTINUED
DECEMBER 31, 2009

Fiscal year ended:	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
(1) Contribution and investment revenue:										
Earned	\$ 8,900,923	\$ 10,320,770	\$ 11,746,288	\$ 13,758,081	\$ 19,112,502	\$ 22,356,241	\$ 24,528,670	\$ 25,941,702	\$ 26,430,915	\$ 22,681,440
Ceded	(70,000)	(70,000)	(36,233)	(58,521)	(712,488)	(990,335)	(1,119,915)	(1,378,279)	(1,170,558)	(1,110,946)
Net earned	8,830,923	10,250,770	11,710,055	13,699,560	18,400,014	21,365,886	23,408,755	24,563,423	25,260,357	21,561,494
(2) Unallocated expenses	1,160,371	1,332,197	1,552,038	1,795,366	2,616,855	2,796,814	3,004,756	2,995,869	3,159,917	2,624,008
Policy year ended:										
(3) Estimated incurred loss and loss adjustment expense, end of policy year:										
Incurred	\$ 5,448,430	\$ 6,515,098	\$ 7,727,237	\$ 9,257,889	\$ 12,742,751	\$ 14,344,347	\$ 15,374,073	\$ 15,169,791	\$ 16,096,860	\$ 13,351,739
Ceded	-	-	-	-	(278,067)	(2,631)	(330,067)	(210,840)	(585,795)	(398,943)
Net incurred	5,448,430	6,515,098	7,727,237	9,257,889	12,464,684	14,341,716	15,044,007	14,958,951	15,511,065	12,952,795
(4) Net paid losses (cumulative) as of:										
End of policy year	1,648,659	1,745,939	2,600,699	2,186,599	2,226,701	2,360,924	2,850,824	2,660,991	3,244,802	2,734,679
One year later	2,629,100	2,219,176	3,316,104	2,921,068	4,105,287	3,296,373	3,743,592	4,181,825	5,138,156	-
Two years later	3,756,516	3,040,750	4,736,877	4,380,519	5,686,877	5,170,224	5,263,978	7,913,383	-	-
Three years later	4,402,095	3,900,515	7,686,502	6,059,643	6,497,502	8,501,426	6,520,461	-	-	-
Four years later	4,782,322	4,508,481	8,775,277	6,286,181	7,383,707	8,873,080	-	-	-	-
Five years later	4,924,726	4,868,639	10,240,003	7,632,563	7,865,666	-	-	-	-	-
Six years later	5,079,038	4,991,468	9,920,918	7,937,430	-	-	-	-	-	-
Seven years later	5,159,859	5,040,324	11,186,555	-	-	-	-	-	-	-
Eight years later	5,163,189	5,206,718	-	-	-	-	-	-	-	-
Nine years later	5,163,189	-	-	-	-	-	-	-	-	-
(5) Re-estimated ceded loss and loss adjustment expense	-	-	-	-	(560,344)	(37,479)	(830,436)	(294,168)	(1,027,695)	(398,943)
(6) Re-estimated incurred loss and loss adjustment expense:										
End of policy year	5,448,430	6,515,098	7,727,237	9,257,889	12,464,684	14,341,716	15,044,007	14,958,951	15,511,065	12,952,795
One year later	5,448,430	6,515,098	7,727,237	9,259,123	12,439,325	14,305,897	14,987,767	14,926,969	15,186,111	-
Two years later	5,448,430	6,515,098	9,272,684	9,259,123	12,439,325	14,288,296	14,966,152	14,913,686	-	-
Three years later	5,448,430	6,515,098	10,921,161	9,259,123	12,439,325	14,298,450	14,988,152	-	-	-
Four years later	5,448,430	6,515,098	10,921,161	9,259,123	12,439,325	14,298,450	-	-	-	-
Five years later	5,448,430	6,515,098	10,921,161	9,259,123	12,439,325	-	-	-	-	-
Six years later	5,448,430	6,515,098	10,921,161	9,259,123	-	-	-	-	-	-
Seven years later	5,448,430	6,515,098	10,921,161	-	-	-	-	-	-	-
Eight years later	5,303,138	6,428,230	11,333,280	-	-	-	-	-	-	-
Nine years later	5,163,189	-	-	-	-	-	-	-	-	-
(7) Increase (decrease) in estimated incurred losses and loss of adjustment expenses from end of policy year	(285,241)	(86,868)	3,006,043	1,234	(25,359)	(43,266)	(75,855)	(45,265)	(324,954)	-

MISSOURI PUBLIC ENTITY RISK MANAGEMENT FUND

Reconciliation of Claims Liabilities by Type of Contract For the Years Ended December 31, 2009 and 2008

The schedule below presents the changes in claims liabilities for the past two years for the Fund's two types of contracts: Liability and Property.

	Liability		Property	
	2009	2008	2009	2008
Loss and loss adjustment expense reserves, beginning of year.	\$ 47,833,783	\$ 44,980,765	\$ 553,371	\$ 230,581
Incurring loss and loss adjustment expenses:				
Provision for insured events – current year	11,832,685	13,785,011	1,120,110	1,726,054
Provision for insured events – prior years	45,400	(4,749)	(339,236)	(40,442)
Total incurred loss and loss adjustment expenses	11,878,085	13,780,262	780,874	1,685,612
Payments:				
Loss and loss adjustment expenses attributable to insured events – current year	1,925,738	2,046,369	1,207,884	1,784,227
Loss and loss adjustment expenses attributable to insured events – prior years	9,265,343	8,880,875	(183,808)	(421,405)
Total payments	11,191,081	10,927,244	1,024,076	1,362,822
Loss and loss adjustment expense reserves, end of year.	\$ 48,520,787	\$ 47,833,783	\$ 310,169	\$ 553,371